

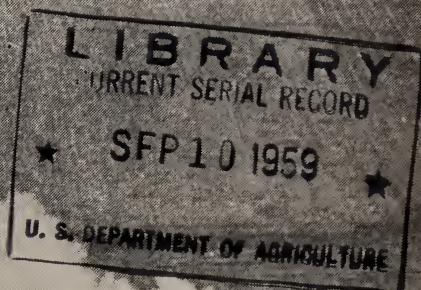
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FCS EDUCATIONAL CIRCULAR 15

Using your Co-op COTTON GIN



by William C. Bowser Jr.

FARMER COOPERATIVE SERVICE
U. S. Department of Agriculture

THE Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

**Joseph G. Knapp, Administrator
Farmer Cooperative Service
U.S. Department of Agriculture**

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Using Your Co-op Cotton Gin

by William C. Bowser, Jr., Cotton
Branch, Marketing Division

THE road to market for a bale of cotton starts just beyond the gin rather than at the farmer's gate, since nearly all cotton in the United States is ginned before it is sold. Ginning is more nearly the last step of production than the first step in marketing.

A cotton gin is too large and expensive for the average farmer to own, but it is as necessary to the production of cotton as any tool used on the farm. Thus many farmers own and operate gins jointly with other producers. However, the cotton gin is frequently only one of a series of off-the-farm enterprises cooperatively run by farmers to increase their total net returns from farming. Cooperative compresses, cottonseed oil mills, and cotton marketing associations are some examples of additional enterprises.

Cotton farmers have found several other good reasons for owning and operating their own gins. They have demonstrated in many areas that they can save up to half the cost of what they previously paid for ginning. Farmer ownership of

gins increases their incentive to plant improved varieties of seed. They are in a better position to preserve the inherent qualities of the cotton during the ginning processes. Since farmers traditionally sell their cottonseed to ginneries, farmers who belong to co-op gins also obtain oil mill prices, less handling costs, for their seed.

The co-op gin is an integral part of the farmer's business. For this reason the farmer is interested in the latest methods and equipment that retain the quality of his cotton during the ginning process.

Ginning rates paid by members of co-op gins, as well as initial prices they receive for cottonseed, are commonly at competitive or prevailing levels for the area. These transactions, however, are preliminary in nature. Farmers receive a final settlement from the gin after all ginning and handling costs are paid. Any savings which may result from the year's operation, including those from the sale of cottonseed to oil mills, are distributed to the farmers in proportion to their patronage.

Farmers find also that the lower unit costs resulting from handling a comparatively large volume of seed cotton are usually keys to

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successful cooperative ginning.

To own and operate his own cooperative gin, the individual farmer must go through the following steps:

1. Become a member.
2. Help finance the cooperative.
3. Help run the cooperative.
4. Help solve cooperative problems.

Becoming a Member

LET'S assume that after much thought and consideration, you believe you will obtain financial and service benefits by ginning your cotton cooperatively. If there is a local co-op near, you may want to join that. If there is no co-op gin near you, and enough of your neighbors are also interested, you may want to look into the possibilities of helping organize a new one.

Whether you join a local association or help form a new one, you should be able to meet two general requirements: (1) be willing and able to invest money in the organization, and (2) be willing to join in a firm contract with other cotton producers to gin your cotton at a cooperative gin.

Before going into how to become a member, it is important to know what a cooperative is and what membership involves.

What is a Cooperative?

An agricultural cooperative is a voluntary organization of farmers who join together to obtain at cost goods and services needed in the production and marketing of their products. Other common forms of business organization are individual proprietorship, partnership, and corporation.

The distinguishing characteristics of a cooperative enterprise are democratic control by members, limited returns on capital invest-

ment, and distribution of savings over the cost of doing business to members in direct proportion to their individual use of its services.

The basic Federal cooperative law permitting farmers to organize cooperative associations for their mutual benefit is the Capper-Volstead Act of 1922. A cooperative also must conform to the provisions of the State law under which it is incorporated.

Farmers form cooperatives to market their products and obtain supplies and other services they need in their farm operations. Their ultimate objective is to provide themselves with better and more economical services, such as marketing or ginning, than they can obtain elsewhere, or with services that are not otherwise available. In the case of cooperative gins, the objective is to increase members' total returns through savings in ginning services, in handling farm supplies, and in obtaining mill prices for cottonseed.

Any economic gain that accrues to a cooperative above operating expenses represents undistributed savings to members. At the end of the accounting year, savings are distributed to members in proportion to their patronage and in accord with a pre-existing contract requiring that the distribution be made. The distribution may be in cash or in some form of capital equity or debt obligation.

The ginning operation is more nearly the last step of cotton producing than the first step in marketing. A major task in financing a co-op gin is raising the original capital to buy the plant and equipment.



Sizing Up the Local Co-op

As a cotton farmer, you should consider many points before joining a local association. After all, you would carefully investigate the pros and cons of investing in a new tractor or picker. Becoming a member of a cooperative gin is basically a similar undertaking.

In sizing up a local cooperative, you should certainly take a long look around the gin itself. A healthy, well-run association creates an atmosphere of well being.

While you may know the manager well, it would pay to visit several members and determine their feelings about the management and operation of the gin. A good manager, more often than not, is vital to a successful operation.

Furthermore, you'll need to know whether the directors understand and honor their responsibilities. A chat with several directors may soon help determine whether capable and properly qualified men are being elected to these important positions.

You should examine membership relations which are also very important to the success of a cooperative. Members should be informed on general cooperative principles, practices, and responsibilities, as well as on actual benefits from using this particular gin. This takes a strong program for membership education and participation on the part of the co-op.

Finally, you'll need to look for sound operating policies and a strong financial condition. Without these, a co-op cannot succeed.

Joining a Co-op

Becoming a full-fledged member of a co-op gin, with the right to vote at meetings and serve on the board of directors, requires the ownership of at least one share of stock in a capital stock organization, or a membership in a nonstock association. Some co-op gins also require each member to sign an agreement to gin all their cotton at the co-op.

Most co-ops will take in new members to increase volume and lower their unit costs. A common practice is to allow a new member to "gin out" a share of stock—that is, the new member's share of any patronage refunds will first be applied to his membership in the organization.

Getting a Co-op Started

Joining a local association may be the easiest way to become a member. But if there is no cooperative in your community, you may face the problem of helping form a new one.

In forming a new cooperative gin, probably the most important criterion, other than economic need for the organization, is the volume of cotton available for ginning in the area. In other words, is your production along with that of other interested farmers large enough to operate a gin? And second, can you furnish the amount of capital required to purchase and operate a gin?

If you can meet these two requirements, the matter of legally organizing a cooperative can usually be accomplished.

It is, of course, advisable to discuss the matter fully with your county agent or marketing specialist at the State agricultural college. A visit to other nearby cooperative

gins would also be useful.

The first step in organizing your co-op is to prepare an organizational agreement and to obtain enough signatures to insure an adequate volume. When this is done, you are ready for incorporation—that is, ready for obtaining authority under the State cooperative law to operate a business in the co-op's own name as distinct from the farmers who own it.

You should have a competent attorney to help incorporate. He will prepare an application signed by the incorporators to be sent to the proper State official.

When this application, called the articles of incorporation, is accepted and approved by the State, the cooperative is legally incorporated. It has legal existence separate from its members, with certain rights and powers in its own name. The farmers who sign the articles of incorporation are charter members.

The first step charter members of a cooperative usually take after incorporation is to hold a meeting to adopt bylaws. These are the rules and regulations under which the organization is run. Most of the States have statutes that require a majority vote of the membership for the adoption of the co-op's bylaws.

These bylaws generally include, among other things, requirements for membership and voting rights, responsibilities of members, rules for conducting meetings, duties and qualifications of directors and officers, method of distribution of net margins, and provision for amendments to the bylaws. Your State agricultural college and a competent attorney can help you develop desirable provisions.

The adoption of bylaws and election of a board of directors relieves members of direct control and management responsibilities. However, it is up to the members to select competent directors and to continually inform them as to the gen-

eral desires and needs of the cooperative as a whole. This can best be done by an informed and active membership. Otherwise, policy making and control may fall into the hands of a relatively few or even a single person.

Helping Finance the Cooperative

TO become a member of a cooperative, you must invest time, effort, and money. Of these, probably the most important to you at any one moment is money. When you buy a tractor you expect to pay for it. Similarly, when you join a co-op gin or help form a new one, you will have to invest some money in the organization.

A cooperative gin is composed of a number of farmers like yourself, and is operated for the mutual benefit of all. An initial sum of money is required for the purchase of capital stock or membership certificates. Aside from this, the amount of investment is approximately in proportion to your share of the total patronage, usually based on the number of bales you gin.

Raising Initial Capital

A major task in financing a co-op gin is raising the original capital to buy the plant and equipment. This includes a considerable amount of cash, probably 50 to 60 percent of the total cost of the fixed assets

(land, buildings, and equipment), and a loan to cover the balance of the purchase. If the operation appears sound, the loan usually can be obtained from one of the 12 district banks for cooperatives,¹ supervised by the Farm Credit Administration, or from other sources.

The initial financing is sometimes difficult, however, because of the high cost of gin plants. Even secondhand plants can be high in cost, particularly if they are in a good location and have been ginning a large volume of cotton. The cost of new gin plants in 1958 ranged from around \$200,000 to over \$300,000, depending on location, number of stands, type of building, kind of power, and auxiliary equipment desired.

There is no set ratio between membership investment and the amount of borrowed capital in buying a gin. The Farm Credit Act of 1933 limits the amount that a bank for cooperatives may loan on fixed assets to 60 percent of the bank's appraisal of the security offered. This is a sound restriction.

It is advisable, however, that your cooperative plan to finance a larger proportion of its facilities from its own funds. Because of inflationary factors and the rather high rate of obsolescence of gins, facility loans by the banks generally have been in the range of 40 to 50 percent of the appraised value. Thus the bank for cooperatives probably would loan

¹ The 12 district banks and the Central Bank for Cooperatives in Washington, D.C., comprise one unit of the Cooperative Farm Credit System supervised by the Farm Credit Administration. The banks were established in 1933 to provide a permanent source of credit, on a sound basis, for farmer cooperatives engaged in marketing farm products, purchasing farm supplies, and furnishing farm business services.

around \$100,000 to \$125,000 on a plant appraised at \$250,000, provided the members raise the initial amount. The association would have to qualify as a borrower and meet certain other loan requirements of the bank too.

Subscription of funds to the original capital should be in proportion to the volume of cotton you plan to gin. If the association expects to gin an average volume of 4,000 bales of cotton a year, you probably would be expected to subscribe at the rate of \$25 to \$30 a bale on your average annual production. This is a reasonable approach as your share of the gin's savings will be refunded to you on the basis of your patronage. It is also important that the investment be of sufficient size to make you aware of your financial stake in the organization.

In addition to a facility loan, your cooperative may also want to borrow some additional money to help meet operational expenses. Operating capital loans are generally short or medium term loans. These loans may be secured or unsecured depending on the circumstances involved.

Repaying Borrowed Capital

The problem of obtaining money to repay the facility loan can often be solved on a basis similar to that used to obtain original capital. That is, you make a small additional investment in capital each time you gin a bale of cotton. Another method is to repay the loan out of annual savings of the gin.

Under the first method you would be required to pay the co-op \$5, for example, on each bale of cotton you gin. Often this sum can be deducted from any amount due you on

cottonseed. The money you receive from cottonseed may be more than the total cost of ginning and baling. In fact, farmers generally expect their return on cottonseed to pay at least the cost of these services.

The additional money you pay in this manner is not a cost or expense to you, but a further capital investment in your gin. At the end of each season the association issues you stock or some other evidence showing the total amount of capital you have furnished in this manner. The money thus invested by each member during the ginning season may then be used to pay off the money which the co-op borrowed to buy the plant. When the total debt is paid, each member has invested in the capital of his cooperative in proportion to his use of the facilities.

This method of obtaining capital is often continued after the indebtedness on the gin is paid off. The money from this continuous source can then be used to "buy in," or retire, the capital furnished through earlier contributions.

The other method used by gins to pay off their original indebtedness is to retain a part of the net savings from operations to provide capital. Money obtained this way is applied to the loan principal periodically until the original indebtedness is paid off.

Patronage refunds so retained are usually evidenced in the form of capital equities. They include such forms as stock certificates, book credits, or revolving fund certificates. Funds accumulated in this manner by the gin may be used to redeem the oldest outstanding stock, thereby revolving capital stock equities of the members.

Thus, in both methods accumulated amounts may be handled on a revolving fund basis. This permits your capital equity amounts to be returned to you periodically.

The most important feature of a revolving plan is that it keeps the invested capital in the hands of active users of the gin, in proportion to the number of bales they gin. This includes new members for they must furnish their share of the capital too. When a member ceases to patronize the gin, his investment is retired in a systematic, orderly fashion without disturbing the financial condition of the association. In this way the revolving capital plan tends to maintain your interest in the services of the association rather than in the amount of dividends received on invested capital. In co-ops, dividends are usually limited by State statutes.

Need for Reserves

It is up to you and the other members, through your directors, to see that the co-op maintains an adequate capital reserve. The cooperative laws of several States specifically require reserve funds. A certain portion of the net savings from each year's business, usually about

10 percent, is set aside before any dividends on capital can be declared or patronage refunds allocated. This is continued until the reserve equals 50 percent or more of the outstanding stock.

Capital reserves often enable a cooperative to withstand financial emergencies or generally poor years without affecting revolving fund certificates or stock certificates. Such reserves may be "allocated," meaning both apportionment on the books and notification by the association to patrons in accordance with regulations of the Internal Revenue Service. Unless so allocated, the association is subject to Federal income taxation on them. When allocated, however, these reserves become a capital equity item rather than a reserve of association funds.

In financing a cooperative gin, it is important for members to keep in mind the underlying reasons for organizing—to provide the best possible ginning services at cost and higher returns for seed. To do this, your co-op should shape its financial policies to minimize the idea of returns on investment. As a member, you should expect to gain advantages and benefits from your gin in proportion to the use you make of it.

Helping Run the Cooperative

YOUR co-op gin deserves your constant scrutiny and care. You can do this best by taking an active part in the affairs of the cooperative and helping direct its policies.

Actually, a strong spirit of cooperativeness, a willingness to assume responsibilities, and a proper interplay of knowledge and understanding among members, directors, management, and employees are all

essential to continuing success in any cooperative undertaking.

In the long run, though, a cooperative has little chance of success without the wholehearted support from you and the other members. It is, of course, vital that you deliver your cotton to the association for ginning. It is equally important that you participate actively in the affairs of the association. It is not enough just to recognize your

responsibilities; you must live up to them. As part owner of a large and expensive plant and its machinery, you should see that these facilities function properly and to their fullest potential.

Your Co-op Is Your Business

Since your co-op gin is literally your business, the financial position of the association is of primary importance to you. A co-op gin cannot operate for long if it loses money. It is up to the members to see that the directors and employees make full use of the annual audit. You should become thoroughly familiar with the financial statements of your cooperative and be able to make an intelligent appraisal of their contents.

To assist you in appraising the

financial position of the cooperative, your manager may wish to prepare simplified financial statements for distribution to members (see appendix for suggested forms).

Members of co-op gins often attempt to interpret the operations of their association in terms of cash receipts and cash disbursements. However, this interpretation will not explain either the savings or the expenses of a co-op gin. Cash coming into the co-op is not necessarily savings, nor is expenditure of cash always expenses.

Moreover, your co-op may realize savings without receipt of cash and may incur expenses without paying out cash. The savings of a cooperative may show up in its current financial statement as a greater increase in assets than in liabilities, or in a greater decrease in liabilities.



An adequate bookkeeping and accounting system is an important aid to management. Bookkeeping schools, like the one above, as well as management short courses, are available to gin personnel in most States.

Thus, you cannot determine the amount of patronage refunds to be distributed at the end of each year solely by the amount of cash on hand without resulting in inequities between patrons. Your co-op should distribute refunds on the basis of the net savings it has made. If cash funds are not available for this purpose, the co-op may pay patronage refunds by issuing patrons additional stock or other certificates, or by setting up credits to their capital accounts.

Services, Rates, and Policies

Ginning services, ginning rates and prices for cottonseed, and general operating policies are important in the operation of your business.

Besides ginning and baling, gin services may include the following: storing, cleaning, and drying seed cotton; temporary storing of bale cotton; insuring seed cotton, cottonseed, and bale cotton while in the hands of the gin; sampling; and transporting bales of cotton to nearby warehouses, compresses, or public cotton yards. Your gin may also provide you with production and marketing information.

Co-op gins usually charge prevailing rates for ginning and for bagging and ties. Furthermore, the prices they pay growers for cottonseed are usually competitive for the area. These cottonseed prices are commonly based on quotations for 100 grade cottonseed at nearby oil mills. If farm supplies are handled too, this general policy with regard to prices is again followed.

As a member of a cooperative gin, you should not be overly concerned with ginning charges or initial prices for seed as such, as these

merely constitute preliminary transactions before final settlement. Any savings that your gin has been able to effect on the year's operation is returned to each grower according to his patronage. This means that you get your cotton ginned at cost and receive oil mill prices for your seed less handling costs. Also, the cooperative gin is often able to do a better job of ginning and at the same time maintain the inherent grade and staple of the cotton.

Your co-op gin's main interest is to properly gin your cotton so that it will bring you the greatest net returns. Savings per bale ginned is more important to the co-op member than the total dollar income of the association as a whole. It is generally preferable for a co-op gin to have a total net savings of \$24,000 on 4,000 bales than \$27,500 on 5,000 bales. This is because the 4,000 bale volume would provide the farmer patron \$6 for every bale he ginned compared with \$5.50 at the larger volume. Insufficient volume rather than too great a volume, however, is usually the problem of most gins.

Above a certain volume, ginning costs per bale do not decline in proportion to the increase in volume. This is fundamental and should be kept in mind by those directly responsible for determining the co-operative's course of action.

Ginning expense per bale is another criterion in determining a gin's performance and represents the ultimate cost to you after you have received your patronage dividend. It is one measure of the efficiency of the cooperative.

Regardless of the ginning rate charged, the gin should keep its unit expenses low without sacrificing a quality job of ginning. Economical operations rather than a high in-



Members of a cooperative have a direct voice in management through their selection of members to the board and their approval of basic policies.

come from ginning charges is a good test of an effective co-op.

Speed in handling members' seed cotton, without sacrificing quality, is also an important consideration of gins. This is particularly true in those areas where adverse harvesting conditions frequently lower the grade of cotton.

Management Responsibilities

Effective management of your cooperative is dependent on the combined abilities of the board of directors, the manager, and other supervisory employees. Members have a direct voice in management through their selection of members to the board and their approval of basic policies. A close, harmonious working relationship among all three segments will greatly advance the goals of the association.

The primary purpose of the annual meeting of your cooperative is to provide members the opportunity to exercise their control of the association. It is a legal requirement.

Some of the more basic duties of members at your annual meetings is

to elect directors, receive and pass upon the reports of your directors and manager, contribute comments and suggestions on the conduct of the business, and vote on bylaw changes, resolutions, and matters of policy.

In electing your board of directors you must keep in mind that these are not honorary posts but positions of great responsibility and control. Therefore, it is necessary to elect men who have the ability, the time, and the desire to discharge these responsibilities in the best interests of the entire membership.

The primary function of the board of directors is to establish policies. It is their duty to control and direct the affairs of the association in accordance with the policies agreed upon by the members. The board possesses all the corporate powers of the association not specifically reserved to the members.

A broad outline of the major responsibilities of your board of directors includes: (1) selecting the manager, (2) formulating policies, (3) checking to see that the policies



It is the duty of the board of directors to control and direct the affairs of the association.

are being followed, (4) evaluating the results obtained from the operation of the policies adopted, (5) maintaining an adequate bookkeeping and accounting system and providing for its regular examination by competent outside auditors, and (6) presenting to the members at stated periods a statement of the financial condition of the association.

While the board of directors' function is legislative in nature, the manager's role is executive. It is his duty to carry out or execute the policies of the cooperative. In this regard his job is twofold: (1) management of the ginning processes and related activities and (2) management of employees.

To gain the utmost from the resources at his command, the manager should be a technician, a businessman, and a leader of men. He should be sympathetic to cooperatives principles and ideals if he is going to inspire membership loyalty and confidence in the association so often lacking in those cooperatives that never make the

grade. In addition, mutual confidence and respect between the manager and the board of directors is vital to the success of the business. Members of the board should not try to assume the duties of the manager, nor should the manager try to dictate the policies of the cooperative.

In the last analysis, however, the members of the cooperative are responsible for the character of the organization, its management, and its policies. In the right environment, a well-directed, properly managed cooperative gin will be able to render you substantial economic services. A loosely coordinated, inefficient operation may result in a considerable loss in your investment.

Keeping Informed

A major problem confronting members of co-op gins is that of keeping fully informed of the objectives, possibilities, and limitations of a cooperative. In other words, you must understand your

cooperative and the principles of cooperation. With this information you will obtain the maximum benefits from your association; and you will be in a position to answer much of the current criticism of cooperatives by persons less adequately informed. Even more important you will be able to justify and interpret the cooperative way of doing business to yourself.

One of the best ways for you to keep informed is to attend all your annual and special membership meetings. You can learn much there. Listen carefully to the reading of the business statements and the reports given by the manager and the board of directors. If you have any questions in regard to the statements or reports, make them known. Active participation in the meeting by all members of the family should be strongly encouraged.

Your co-op may also issue a membership publication. Read it. If it contains business information regarding your gin's operation, study

it. Your co-op may also be affiliated with a regional association which issues information on cooperatives. Your county agent or State agricultural colleges are sources of regular information and reports concerning current research and experiences of successful cooperatives.

Reach the young people. Encourage them to attend your meetings. Help them understand the operation of your gin and the basic principles and benefits of cooperative action. In this way you will help to strengthen your co-op's future, and will learn much in the process yourself.

The value of an active, well-informed membership cannot be overestimated. The greater responsibility to achieve this end is upon you, the member, as you are the one who stands to benefit. It is your business. By keeping abreast of the needs and goals of your gin, whether as a member or as a director, you can help your cooperative make the most of its opportunities.

Helping Solve Cooperative Problems

YOUR co-op will always have problems. As farmers must change their operations, cooperatives must also change with them. Cooperatives often find they need to add other services. And they may need to adjust to keep pace with rapid technical progress and other changes affecting farming conditions.

Adding New Services

Let us consider adding new services first. Your co-op gin may be able to perform many services for you other than ginning your cotton and selling your seed.

Joining a Co-op Oil Mill

By becoming a member of a cooperative oil mill, for example, you may get additional savings on your seed.

The gin delivers seed to the co-op mill for crushing and processing. The savings the mill makes on its operations and sales of cottonseed oil, meal, linters, and hulls during the year go back to each gin in proportion to the quantity and grade of seed it delivers for crushing. The additional savings obtained by the gin in this manner are in turn passed on to the grower.

In effect, you would be extending your operations from the farm to



Co-op gins get additional savings on cottonseed by delivering their seed to a cooperative oil mill.

the gin and then to the cottonseed oil mill. This would probably involve additional investments on your part. You should also be willing to assume whatever risks might be involved in running a cottonseed oil mill, just as you had already assumed those responsibilities and risks in your gin. Your decision would, quite naturally, be based on the fact that you would expect added net returns and better service by moving on to another stage in the preparation of your crop for market.

Gin membership in co-op oil mills represents a growing phase of vertical integration in the cotton industry. Seventeen co-op mills were operating in 1959. They served, either directly or through member gins, an estimated 50,000 farmers. The federated type of mill, or one with memberships made up entirely of co-op gins, represented the most common form of organization.

Helping Market Cotton

Your gin may also help you market your cotton. Many co-op gins act as agents or local representatives for a State or regional cotton mar-

keting association. Many farmers find this a convenient way to dispose of their crop.

In many instances, a substantial portion of the farm members are also members of a local cooperative cotton marketing association, and find this a profitable method of handling their cotton.

At one time many co-op gins bought their members' cotton outright at competitive prices. This price was frequently more than the market justified. As a result, gins often lost considerable money on such an operation. Most gins now consider this practice of taking title to the cotton as too risky.

Handling Supplies

Many co-op gins take on multi-purpose activities, handling the production supplies needed for growing cotton and other crops and for general farming. Seed, feed, insecticides, fertilizer, and petroleum products are the most common items handled. Co-ops buy these supplies in wholesale quantities and usually sell to farmers at prevailing prices. Farmers then receive refunds on the basis of the amount of



In recent years, producers have shifted to machine harvesting for about one-third of the cotton produced in the United States.

business transacted with the co-op.

In addition to considerable savings to members, purchasing activities of this nature enable a co-op gin to give its manager, and sometimes one or two other key personnel, employment throughout the year. The co-op can usually obtain a better manager under these conditions.

By spreading its services throughout the year, the co-op gin can also cut down on overhead costs for office facilities as well as for personnel.

Another advantage of handling farm supplies is that the co-op can keep in touch with its members throughout the year instead of just 4 or 5 months during the ginning season. A co-op gin that does not engage in sidelines is practically dormant more than half the time.

Adapting to Changing Conditions

Larger farm operations, mechanized harvesting practices, and

technological progress in gin engineering have brought about important changes in the ginning industry in a relatively short period of time. These have resulted in a substantial reduction in total number of gin plants in operation and a rapidly increasing use of major auxiliary gin equipment.

Most of the supplementary equipment in use today, such as seed cotton dryers, lint cleaners, bur machines, stick and green leaf machines, and green boll traps, was either not developed or not available until the latter part of the 1940's. Even with the substantial reduction in the number of gin plants, however, available gin capacity in most cotton producing areas, except in the West, far exceeds the volume of cotton produced.

Co-op gins, as any other kind of machinery, need a certain volume to operate efficiently. You should therefore consider whether your gin is operating most effectively. In some areas, for example, two small gins can combine into one association. Their combined volume and the subsequent smaller overhead expense usually results in better returns and services for the members.

The need for a larger volume of seed cotton and greater efficiency in operation are only two of the many problems confronting your cooperatives today. Farm units are growing larger and farmers are changing their methods of operation to meet new needs. Cooperatives too must be ready and willing to make whatever changes that may be necessary to continue to promote the economic well-being of their members.

Some Questions on Your Cooperative Cotton Gin

1. How many members does your co-op gin have? How many patrons? How many patrons are not members?
2. How is membership acquired? How is it terminated? What plan is followed to make members of new patrons?
3. Do the youth of the farm community take an interest in the co-op gin? Is any special effort made to inform them of the principles of cooperative action?
4. Under what plan do members contribute capital? Has money been borrowed from outside investors? What provision is made to pay off debts with membership capital?
5. Are members given credit for capital contributed through earnings retained in the business? In what way is this done?
6. Would you be willing for your gin to deduct \$4 or \$5 a bale for capital purposes from your seed check each time you ginned a bale?
7. Do you attend the annual meetings of your co-op? Do you help select competent directors?
8. Could your gin handle a larger volume to advantage? Have you told your neighbors, who are not members, of the benefits you have received from your gin? Have you told them how you as a member help to control the affairs of the gin?
9. Do you see any way the co-op gin might improve its operating methods? What new services might be added to the benefit of patrons?
10. How long has it been since you have carefully read the bylaws and articles of incorporation of your association?

Appendix

Simplified Financial Forms

XYZ Cooperative

Anytown, U.S.A.

Statement of Financial Condition

April 30, 1959

We own <i>Current Assets</i> , including cash, Bank deposits, Receivables and Inventories, totaling----	\$84, 000
We owe <i>Current Liabilities</i> to suppliers, other creditors, and members which will come due and be paid in the next few months, totaling-----	47, 000
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The difference is our <i>Net Working Capital</i> -----	\$37, 000
The book value of our <i>Fixed Assets</i> (original cost land, buildings, machinery, less depreciation allowance) totals-----	154, 000
We owe the Cooperative Bank a note, secured by a mortgage on the plant, which is being paid off at the rate of \$5,000 every 6 months—balance due-----	59, 000
	<hr/>
Our <i>Equity</i> in our fixed assets is, therefore-----	95, 000
We have <i>Investments</i> consisting of stock in the Bank for Cooperatives, and in other cooperatives, totaling-----	75, 000
Our <i>Prepaid Expenses</i> , including insurance and utilities, totals-----	1, 000
	<hr/>
TOTAL NET ASSETS OWNED -----	208, 000
	<hr/> <hr/>
These <i>NET ASSETS</i> are represented by investments of members and other patrons in:	
Common Stock-----	1, 000
Preferred Stock-----	130, 000
Equity Certificates-----	70, 000
Contingency Reserve (undivided)-----	7, 000
	<hr/>
Total equities of members and patrons-----	208, 000
	<hr/> <hr/>

XYZ Cooperative
Anytown, U.S.A.
Combined Operating Statement—All Departments
Year Ending April 30, 1959

Sales and Revenue

Farm supplies bought by patrons-----	\$100, 000
Sale of cottonseed delivered by patrons----	93, 000
Ginning and wrapping services paid for by patrons-----	90, 000
Patronage refunds and dividends received--	15, 000

Total sales and revenue-----	\$298, 000
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Purchases, Costs, and Expenses

Cost of farm supplies sold to patrons-----	85, 000
Paid to growers for cottonseed as ginned----	83, 000
Cost of bagging and ties used-----	15, 000
Total operating expenses-----	56, 000
Interest paid on borrowed capital-----	3, 000

Total purchases, costs, and expenses-----	242, 000
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<i>Total Net Savings from all operations</i> -----	56, 000
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Disposition of Net Savings

Patronage refunds distributed:

In cash -----	20, 000
In preferred stock-----	15, 000
In equity certificates-----	13, 000

Total patronage refunds-----	48, 000
Dividends on preferred stock at 4 percent--	5, 000
Added to contingency reserve-----	2, 000
Federal income tax provided-----	1, 000

<i>Total disposition of net savings</i> -----	56, 000
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XYZ Cooperative

Anytown, U.S.A.

Statement of Operations and Patronage Refunds by Departments Year Ending April 30, 1959

Ginning (5000 bales, 7,300,000 lbs. S/C)

	Total	Per bale	Per hundred weight
Paid by growers for ginning and wrapping -----	\$90,000	\$18.00	\$1.23
Less patronage refund on ginning--	26,500	5.30	.36
Net cost of ginning to patrons-----	63,500	12.70	0.87

Cottonseed

	Total	Per ton	Per bale
Paid grower for seed as ginned----	\$83,000	\$48.82	\$16.60
Plus patronage refund on seed-----	14,600	8.59	2.92
Net sales returns to patrons-----	97,600	57.41	19.52

Farm Supplies

	Total	Per dollar of sales	Percent of sales
Paid by growers for supplies pur- chased -----	\$100,000	\$1.00	100.0
Less patronage refund on supplies--	6,900	.07	6.9
Net cost of supplies to patrons-----	93,100	0.93	9.1



Selected Publications on Cooperative Cotton Gins

- Bowser, William C., Jr. Effect of Grades and Weights on Cottonseed Margins of Gins. FCS General Report 55. March 1959.
- Campbell, John D. Estimating the Weight of Cottonseed by Gins, FCS Service Report 29. July 1957.
- Fetrow, W. W., McVey, Daniel M., and Scarce, Jane L. Processing and Marketing Cottonseed Cooperatively. FCS General Report 21. April 1956.
- Weaver, Otis T., and McVey, Daniel M. Using Gin Machinery More Effectively. FCS Bulletin 7. September 1955.
- Weaver, Otis T., and Fetrow, Ward W. Costs and Margins of Cooperative Cotton Gins. FCS Bulletin 67. May 1951.

You and Your Co-op Series

Other circulars in this series are available from the Information Division, Farmer Cooperative Service, U.S. Department of Agriculture, Washington 25, D.C. The series includes:

- The Story of Farmer Cooperatives, FCS Educational Circular 1.*
- Using Your Livestock Co-op, FCS Educational Circular 4.*
- Financing Farmer Cooperatives, FCS Educational Circular 5.*
- Using Your Farm Supply Co-op, FCS Educational Circular 6.*
- Using Your Fruit and Vegetable Co-op, FCS Educational Circular 7.*
- Using Your Co-op Elevator, FCS Educational Circular 8.*
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- Forming Farmer Cooperatives, FCS Educational Circular 10.*
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